

Message Text

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PAGE 01 CANBER 00394 170023Z
ACTION EB-08

INFO OCT-01 AF-10 ARA-10 EUR-12 EA-10 ISO-00 IO-13
OIC-02 NEA-10 SS-15 SP-02 L-03 NSCE-00 CIAE-00
INR-07 NSAE-00 INRE-00 COME-00 TRSE-00 INT-05
PA-01 PRS-01 USIE-00 SSO-00 /110 W
-----025568 170048Z /41

O R 162341Z JAN 78
FM AMEMBASSY CANBERRA
TO SECSTATE WASHDC IMMEDIATE 2173
INFO AMEMBASSY BONN
AMEMBASSY JAKARTA
AMEMBASSY KINSHASA
AMEMBASSY KUALA LUMPUR
AMEMBASSY LA PAZ
AMEMBASSY LAGOS
AMEMBASSY LONDON
AMEMBASSY TOKYO

C O N F I D E N T I A L CANBERRA 0394

E.O. 11652: GDS
TAGS: EMIN, ITC
SUBJECT: PARTICIPATION IN THE INTERNATIONAL TIN COUNCIL

REF: (A) STATE 8271, (B) STATE 10989, (C) JUALA LUMPUR 0316
(NOTAL)

1. AS EMBASSY ORGANIZES ITS THOUGHTS ON INTERNATIONAL TIN COUNCIL, THOUGHT HAS OCCURRED TO US THAT U.S. POSITION MAY APPEAR UNDULY CONTENTIOUS BECAUSE OF TERMINOLOGY PROBLEMS RELATING TO INTER-MIX OF SHORT-TERM AND LONG-TERM CONSIDERATIONS.

2. U.S. ARGUES THAT TIN SUPPLY IS DOWN BECAUSE OF INCREASED COSTS ATTRIBUTABLE TO TAXES. YET U.S. ALSO ARGUES THAT HIGHER PRICE RESULTING FROM REDUCED SUPPLY SHOWS THAT SUPPLY
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DOES NOT RESPOND TO PRICE CHANGES.

3. IS IT NOT PERHAPS RATHER THAT THE HIGH TAXES WHICH HAVE INCREASED COSTS, PLUS THE REDUCED ACCESS TO NEW MINING AREAS, HAVE BROUGHT ABOUT A NEW, HIGHER, SHORT-TERM EQUILIBRIUM PRICE? SUPPLY HAS RESPONDED TO HIGHER COSTS BY DROPPING, AND PRICE HAS RISEN TO CLEAR THE MARKET AT

LEVEL OF THIS NEW SUPPLY FUNCTION.

4. AS REFTTEL A POINTS OUT, THERE IS A HIGH PROBABILITY THAT ITC PRODUCERS WILL SUFFER FROM THIS HIGHER PRICE, AS SUBSTITUTES REDUCE THE DEMAND FOR TIN AND LOWER-COST PRODUCERS EXPAND PRODUCTION. AS THIS HAPPENS, THERE IS A CONSIDERABLE LIKELIHOOD THAT NEW EQUILIBRIUM PRICE WILL BE ERODED.

5. U.S. AND PRODUCER POSITIONS IN ITC APPEAR, THEN, TO BE FOCUSED ON ENTIRELY DIFFERENT TIME FRAMES. IT WOULD APPEAR THAT U.S. IS PROPOSING THAT ITC PRICE RANGE BE SET CONSONANT WITH WHAT WE BELIEVE TO BE LONG-TERM EQUILIBRIUM, WHILE FOCUS OF ITC PRODUCERS APPEARS TO BE THE DAMPING OF FLUCTUATIONS AROUND A SHORT-TERM EQUILIBRIUM PRICE.

6. PROBLEM FOR U.S. IS THAT WHATEVER WE DO WITH RESPECT TO ITC PRICE RANGE, WE WOULD APPEAR TO HAVE NO INFLUENCE OVER SHORT-TERM EQUILIBRIUM PRICE, WHICH APPEARS TO HAVE BEEN BROUGHT ABOUT BY PRODUCER ACTIONS AND NOT BY RAISING OF ITC PRICE RANGE.

7. THIS BEING THE CASE, IT COULD BE THAT THERE WOULD BE MERIT IN U.S. SHIFTING ITS FOCUS IN THE ITC TO THE DAMPING OF SHORT-TERM FLUCTUATIONS AROUND THE SHORT-TERM EQUILIBRIUM PRICE. BUT, IN VIEW OF DELETERIOUS LONG-TERM EFFECTS WHICH
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PRODUCER ACTIONS SEEM SO CLEARLY TO PORTEND, EMBASSY WONDERS WHETHER THE REAL QUESTION MAY NOT PERHAPS BE WHETHER IN THE LONG RUN U.S. INTERESTS ARE BEST SERVED BY CONTINUING THE PRESENT PRICKLY RELATIONSHIP WITH ITS.

8. RESPONSE TO REFTTEL B FOLLOWS SEPTTEL. ALSTON

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